

# CORRECTED FISCAL NOTE

## SB 54 - HB 703

February 16, 2005

**SUMMARY OF BILL:** Increases the excise tax on cigarettes from ten mills (\$.01) per cigarette (20 cents per pack) to 33.5 mills (\$.0335) per cigarette (67 cents per pack). Increased revenue from this bill shall be deposited into a special account to maximize federal funding for the TennCare program (or successor program) and to provide statewide health care programs or services to disadvantaged Tennesseans.

### ESTIMATED FISCAL IMPACT:

On February 3, 2005, we issued a fiscal note which indicated the following: (1) an increase in state revenues of \$244,073,500 (\$238,375,500 would be recurring to the TennCare Fund and \$5,698,000 would be recurring to the General Fund), (2) an increase in state expenditures of \$238,375,500 recurring from the TennCare Fund, (3) a one-time expenditure of \$8,250 for software changes, (4) an increase to local government revenues of \$1,831,500 and (5) an increase in federal expenditures of \$427,451,177.

Based on additional information provided, the estimated fiscal impact of this bill is:

**(Corrected)**

**Increase State Revenues – \$238,375,500 Recurring/TennCare Fund  
\$5,698,000 Recurring/General Fund**

**Increase State Expenditures – \$238,375,500 Recurring/TennCare Fund  
\$112,700 Recurring/General Fund  
\$69,100 One-Time**

**Increase Local Govt. Revenues - \$1,831,500**

**Other Fiscal Impact – Increase Federal Expenditures - \$427,451,177**

Assumptions:

- \$238,375,500 in state revenues to the TennCare Fund would be generated by the tobacco excise tax increase.
- \$5,698,000 in state revenues to the General Fund would be generated by the incidental increase in state sales tax collections.
- \$1,831,500 in local government revenues would be generated by the local option sales tax at an average rate of 2.25%.
- \$427,451,177 in Federal matching funds at a rate of 64.81% (remainder of federal FY05) and 63.99% (three quarters of federal FY06) based on the Federal Medical Assistance Percentages, would be generated by increased state spending on TennCare. No other Federal match rates are used.

**SB 54 - HB 703 (CORRECTED)**

- There is no change in the Federal Medical Assistance Percentages for federal FY06 calculated pursuant to the Social Security Act and no reduction in federal funding.
- 507,182,970 packs estimated to be sold in state FY06 (a reduction from the projected sales of 556,500,000 packs if the tax remains unchanged).
- \$8,250 one-time programming for allocating funds to TennCare Program.
- TennCare expenditures will increase to utilize additional funds.
- An elasticity rate of (-.60), which is somewhat higher than the national average, was used due to surrounding states having lower tax rates than the rate proposed in this bill.
- Decreased sales tax revenue as a result of fewer packs being sold is more than offset by a higher increase in sales tax revenue as a result of the higher price per pack, thus generating an overall net increase in state and local sales tax revenue.
- Two additional staff members for Special Investigations to combat the expected flow of non-taxed cigarettes into Tennessee.
- One-time expenditures of \$112,700 and \$60,800 respectively associated with two additional staff for enforcement.

**CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" and last name "White" clearly legible.

James W. White, Executive Director